



An Interdisciplinary Research Project

## **FIRST RESEARCH WORKSHOP**

# **Private Sector Participation in Water and Sanitation: institutional, socio-political, and cultural dimensions**

**Paper:**

**“Private sector participation and its impact on the poor:  
experiences from developing countries”**

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What we are presenting is really a work in progress of something that WaterAid is currently doing. WaterAid is operating in 15 countries mostly in Africa and four countries in South Asia and increasingly our country programmes in these countries are almost.

Most of the *packet* programmes most of the staff that we have in the 15 countries are increasingly facing this major policy change in the context they operate in, so like in for instance in Tanzania, in Ghana, in Nepal there are currently PSP private sector participation processes taking place. So what we've done is, in May last year we assembled a group of researchers from the different country programmes and some of our NGO partners, we started a research collaboration to look into this topic. First of all it's a research collaboration - there are two main groups in WaterAid and also Tearfund which is a UK based organization and we have partner NGOs in the different countries. So, we looked at rural PSP in Uganda, Mozambique and Ghana and then our cases are also looking into urban PSP in Tanzania, Nepal, Philippines, Argentina and the latest one to have come this month is a place in Mexico from a Tearfund partner in Mexico, and these are full case studies in the sense that they are doing a lot of groundwork participatory methodologies, and then, but we also included in this whole scheme some

*test* studies into unique cases that we thought would offer interesting insight into the research - so, South Africa because of its prosecution, the legal system that they have that mandates that the state should provide for water services and then protect *possibly another* economic policy, and then England and Wales. Washington DC because of, Washington consciously opted not to privatise in 1996, so we look at the dynamics behind that decision, and also Porto Alegre, which is an example of an efficient public water utility.

So we've opted to use the *base* study method in this research, so, which means that the outputs will tend to be more qualitative and our research goal is really to understand the particular contexts in which PSP processes, or PSP policies are being implemented. So, I mean, what this means is the research that we're doing is really...more instrumental in the sense that it wants, it needs, to inform the country programmes, the programmes we have in those countries, and what they will do in relation to the exchanges. So, another thing that we have incorporated in this research is to make sure that, especially in the sense.. of rural PSP... the communities are mandated to serve the poor, we wanted the poor communities working to speak in industry research the speakers and the reference...the reference is to be consulted (clapping)

There are a number of, so the research is ongoing, and we plan to finish by April this year and we have an initial first draft submitted in last November. But, before I go into a discussion of what came out from the discussion of the drafts, just a short note about some of the theoretical issues that at the beginning we said that these are theoretical issues that we need to be conscious about, on which we can evaluate the evidence we get. So the first is the, first theoretical issues of the state versus market debate so one side says scientists need to be addressed by the political processes, and

that therefore it is the governments that markets *rule* to provide a basic service like water. And that...means that markets are the only reliable social mechanism for efficient distribution of goods including water, and can achieve the greatest good for the greatest many and privatisation is seen here as the chief practical method for the market to prevail so the PSP's, the mechanism to make market mechanisms to put *packet* mechanisms in place. But there is also a related issue of the human right versus economic good, one side says that since water has an economic value it ought to be treated as an economic good and governed by market mechanisms and this is also known as the *fourth open* principle. But water is also a social good and therefore people inherently have rights to it and governments have a responsibility and obligation to ensure that citizens enjoy these rights. And we also look finally at the perception of water as a common good because this is one of the main arguments being raised against privatisation, and the point we looked at is as water becomes part of this it is more difficult for instance to meet the non-excludability and non-rivalry criteria of a common good. For a good to be a common good its use should be non-excludable, but when water is scarce, my use of water will deny another one the use water and there will be rivalry in the competition, so in situations of scarcity is difficult to...water as a common good.

These are the main theoretical issues, but the key points that were raised in the seminar we had last November, when we looked at the different case studies, we came out with what we know call political and technical issues. I'll explain later why we've used two terms, political and technical, to describe these issues. But basically these issues are, *focuses* on community participation, financing and then post-recovery which

is most controversial, there is also *exclusional* reform, partnerships in regulation. So six issues these that each of the case studies somehow have something to say about

So, the first one is community participation and what these studies so far show is that the poor are mainly seen as recipients of rather than contributors to growth and development. So whether in the urban large-scale PSP like in Nepal, in Manila, or in the rural small-scale PSP in Uganda, Mozambique and Ghana. The poor are seen mainly as recipients of growth. So like for instance in rural Uganda, Mozambique and Ghana, the poor communities are often last to know about the water projects. They get to know about the water projects *when on tap has* arrived, and starts doing the service. And then they have no access to *contractual division* what is the contractual relations between government and those private contractors hired to do water projects. In urban areas squatter communities remain invisible, this is a problematic issue because, especially *in contracts*, illegal communities could not refer to *in contracts*, like companies that could not put into a contract for a government or do not want to put in a contract that the network can be expanded into these illegal communities because is a de facto recognition that those communities exist and that they have entitlements. So the situation is that squatter communities remain invisible. So what happens is you have government and the community providing water service and projects, and the private sector is there and then, so it's a contract negotiated between the government and private sector and then they deliver in the water service and projects in the communities and *communities* are the last to know. But there is also another point that came out from the studies, which is that social mobilization and community participation are seen largely as burdens and not essential components of project and service delivery. So despite the development records of donors and governments, mobilizing the community

is seen as a burden. Uganda here presents a very interesting case because the problem they have in Uganda is more to do with how to spend the best relief money unlike in *target* areas where the problem is where to get the money. Uganda has lots of money coming in because of *mixed* relief. They have 160 million US \$ allocated for water and sanitation projects and the pressure is on the district assemblies to spend that money fast to meet project targets. The danger that Wateraid is raising is that if you build and construct water projects as big as *whole* water pump without the necessary social infrastructure around it, without the water committees, without people learning how to have systems on how to use those water points, those infrastructure won't last, won't be sustainable. The way we work is to make sure that there is an emphasis on social, what we call social infrastructure building too, it's not just the delivery of water, it's not just an engineering solution, you need social mobilization and community organization too, around those physical infrastructure and our experience so far proves this approach because most of Wales and water communities established 15 years ago in regions like Ethiopia, Tanzania, are still functioning today and we are worried that because of this solution, this idea of just constructing to build, that this component of social mobilization and community participation will be put to the side. And also a key point we're raising here is that it's what communities, enabling communities to be controlled because in order to have the most development impact, it's not just physical infrastructure building that has to be attended to. So instead of the line from government to the community, what happens is the line of private sector delivering water service projects to the community.

The next political and technical issue is financing and here the best way to explain it is using the metaphor of a household head who needs to get the plumbing in

his house fixed because it is leaking, it's not in a good shape. So of course this guy doesn't have the technical skills nor the equipment to do the plumbing work, he cannot do it himself, he cannot ... his own job. So what he does is he looks for a plumber who can do the job and then he negotiates with the plumber what price he is going to pay. That's usually what would happen. Now, the difficulty is when the plumber gives this person the quote for the job to be done, the household head realizes that it cannot afford it and so he goes to a bank to get a loan to pay for the plumber, because he needs the plumbing fixed. This is where most of the contentious points evolve from, because the bank doubts that person's ability to pay the loan and starts to impose certain conditionalities to assure that the money that they will give will not get *missed*. So it's similar to a government and you have the community and the government goes to a bank so that they can finance the projects that they need to deliver to the community, but then the bank doubts that government's ability to pay and starts to impose all these conditionalities. So one usual conditionality is that it is a private sector who should be contracted to do the job and so that they can deliver the service project to the community. The point we are raising here is that there is an issue of how to differentiate between the relationships between the government and the private sector, it's similar to the relationship between household head hiring a plumber to do a job at his home. So if a government needs its water system to be rehabilitated, if he needs professional management, he goes to the private sector to negotiate a contract and that's basically that kind of transaction. This relationship has to be differentiated from what goes on between the government and the bank, because the government couldn't afford that private sector, that private company so that they goes to the bank to negotiate, apply for a loan and the bank starts to impose a number of conditionalities. So, it has to be

taken differently. Increasingly we are seeing that, in Ghana for instance, the problems rely more on the bank's conditionalities rather than government private sector relations, because it is the bank that imposes these conditions. So, it's looking at the role of, what is really the role of the banks.

The next point is cost recovery, it is, as I said earlier, perhaps the main issue generating controversy over private sector participation, because when private companies take over into *operational* activities the first thing they have in mind is of course how to recover their investments. But, those banks financing the project have a more vested interest for cost recovery because they're giving the money, and the only way they can give out this loan if they are assured that there is a supply, a revenue stream that will come from the operation of the utility, and if they're not sufficiently assured that there is a revenue stream, they are taking a big risk in giving those loans. So cost recovery is obviously a big and important issue. Now, the way we've approached this issue is, the starting point is we are looking at the issue of the poor pay more rather than the poor couldn't afford. In Ghana, for instance, in the urban slums, they will pay about 3,000 to 4,000 cedis, which is the equivalent of about 50 US cents a day, which is half of what is a normal daily wage earning in Ghana. So they will be spending up to half of their income, just to get 50 litres of water per day. So the situation is that they are actually now paying more to get water service. In the rural areas they don't spend in terms of cash, but they pay more in the sense that they spend a lot of time, up to six hours in some areas, going from their homes to the water points and bringing back the water. So it's not cost in terms of cash, but cost in terms of time loss...that utility, or the health risk that they bear because the water they get or unsafe water. And then some of the case studies, the high cost today are most often the results

of *low* costs yesterday, so the main factor that puts an increase in prices has less to do with the profit seeking of private companies, and has more to do with the cost of the money that's banked into the investment, so that if they go to a bank and the bank gives them budget financing money to get an interest rate of two and a half percent is considered a very low interest rate. So it's basically the cost of the money that is put into the investment that is triggering the price increases, it's less to do with the profit making of the companies themselves. What is also quite clear in, I think it was presented in the last seminar here, in the case of England and Wales from 1974 to 1989 when the companies - provisional water authorities - were privatising investment into the water systems consistently went down. That was also the case in Washington DC, which meant that at the time of privatisation they would need to be putting in huge amounts of money in the system in order to make it operable so that is one of the key reasons for price increase. We need to look close into the technical reasons behind the price increases. There are reasons like the choice of technology sometimes, some governments would like a Mercedes Benz of water systems when all they need is a Ford Fiesta! You have all these other different technical reasons, but the main point is that we have to look at the technical reasons that push price increases.

The last point is that we also have to consider the cost of not providing safe water and sanitation services – this has been a point made in many other studies - what they spent on medical treatment for cholera epidemics is ten times more than what they can spend on sanitation, so it's like investment in sanitation and water is a cost efficient way of dealing with a host of other problems. So, water and sanitation investments should not be seen as such, but also as public health *pull* in that an economic pull to enable these communities to have more time for other economic...

There are institutional reforms, briefly, because I'm running out of time. Just one point that I would like to raise about the basin the ... province of Mozambique. The national government in Mozambique decided to adopt a policy of private sector participation, which meant that the state corporations, the *power status*, would be privatised and sold off to private capital. One company that was sold was XXPower which is the state company in charge of constructing wells and water points. The idea was, if you let the private sector do the job you would increase coverage because there will be more entrepreneurial activity taking place. But in the case of *Niassa*, when they privatised XXPower. *Niassa* is an area savaged by war, and there is absolutely very little capacity in that area so the state is so weak and neither is the private sector strong enough to have any kind of significant contribution. So when they privatised, what happened was, with XX Power out of the picture, no one was doing the job, because there are only five companies in the whole province that can do *building* and construction and they were *full* because of the contracts coming from places like WaterAid and other donors so this means that state capacity building is *censored*. And then, there is another point which is between partnership and collaboration. So, the main point which is coming out on this issue is the *distinct roles* of the different stakeholders, because the assumption is that if you have partnerships you have a fusion of interests, whereas when we use the term 'collaboration' the private sector is ... profit taking the government, indeed its role as a guarantor in the provider and then you have communities on one hand and the NGOs within the scheme. This is another important point, maybe I can discuss this in much greater detail later.

So, finally, we consider an ongoing project in the year of ... what are we spending to look at in terms of how to analyse what has come out from the base studies.

First is this issue of whether what is really ... relationship private sector development which is more institutional, or is it about private enterprise development? Because if you look at the reasons why private sector development is being supported, it says that by supporting the private sector in relation to entrepreneurial activity on the ground. But then in the countries, especially sub-Saharan Africa, the problem is capacity, there is no, enough pool of, I mean in the rural areas most of the middle class have migrated. Those who can set up a small company, and who have the tools and equipment to start using wells doing those sort of *schemes*. We think that this is something that has to be posed to policy makers - are they after, private sector development or private enterprise development? Then, I mentioned the idea that it was technical and political, we look at the issue of PSP, a technical issue, which means that if it is a technical issue you need *hydrologist unit* engineers to come out with solutions. But it is also a political issue because if rearranging relationships between governments and citizens or between governments and the private sector. The point is we have to see the whole project as both a technical issue which needs technical solution and a political issue which needs political solutions. And finally, we look more towards context prescribed approaches, because as the case studies have shown us it is difficult to pose a single formula that can be applicable to each of the different cases. Like, we cannot say that private sector participation is good and make it applicable to all the cases. The main point is to understand the context and to see what will be the appropriate mix of technical and political solutions for that particular context.

**(Questions)**

Q. ....of the projects you make reference. Are these projects in rural areas or part of a big city, of a big concession, they accompany the investment of English companies? Out of curiosity, what places in Argentina are you working on, because quoted you had experiences in Argentina?

EG: We're working with *ILED* in Buenos Aires, because there's been a lot of field studies already made of Argentina, but this one that we're doing on the issue ... the urban poor and its relationship to the provision of water and sanitation services, so it's looking at those areas

Q. My main question is the question of escape ...

EG: ... yes, because in the case of Argentina you have small slum communities within a big city and we focus on the experience of those slum communities In Nepal and Kathmandu it's more .... In the rural areas in Uganda and Mozambique it's mostly the contracting, implementing the policy that contracts funded from relief money and donor money has to be given to private operators. So, you have the perception of wells, conduct wells and water points in that case .... We're not looking at making comparisons between the case studies, because as I said, what we're looking at is *standard* from both particular contexts ... between those areas...the political dynamics of the economic *realities* in those areas.

Q. I'm hoping you can expand on a couple of points, first of which is your description of your debate, the debate that your team had over water, what you termed the 'common good' which I suppose people often also term a 'public good' and I'll just go back to something that you said because I thought it was very crucial to what appeared to be your argument. In situations of scarcity it is difficult to conceive of water as a common good and I wondered if you and the team had discussed the difference between first order and second order scarcity, that is natural scarcity but also situations in which you had socially created scarcity, for example lack of septic tanks in Jakarta, might create pools of ground water such that you do have a scarcity of water, especially for people who rely on shallow wells. On that point also, I'm wondering why you didn't mention water being a merit good, because this has always seemed to me to be a stronger argument for the case of state management, rather than public good which has been hotly debated. Another theme that I was hoping that you might mention in the ..., but didn't is issue of ownership versus incentive – that gets back to the regulation issue. This has been long debated within the banks, the world banks for example, when there is a very strong case to be made for the fact that, not ownership, not public or private ownership, but in fact regulation and incentive may in fact be stronger determinates of performance and I wondered if you could refer to some of the cases of public management that you had referred to earlier like Puerto Alegre and did you consider that ownership versus incentives issue in your work, and if not, why not?

EG: No we didn't, and the reason is more to do with the composition of the research team. The researchers are coming from, NGOs from these different countries where we are doing the base studies from and it really has to do more with getting to the

wider – what we’re thinking of in terms of these theoretical issues is we just started and these are the basic things we need to look at. One of the reasons that I was interested in coming here is to present and get interaction. Now within the discussion on first order and the second order scarcities, our discussions were more about in rural areas where you have scarce water resources. It feeds a lot into the ownership versus incentive debate, because, for instance, we’ve made this distinction between what we would call ‘the right to water’ which is the entitlement of individuals and ‘water rights’ which is the license, because sometimes there’s a lot of confusion over those type of rights. The position that we take in our organisation is that people have the right to water which as an entitlement is a fundamental human right. The water rights which is the license is similar to what governments give to binding companies to get the water. So it’s something that’s different and might be governed by different sets of rules. You can say that economic rules can govern the water rights, the license, but when it comes to the fundamental right it is something that people are entitled to and therefore it imposes obligation from governments. The other ... thing is on why we’ve included Washington and Porto Alegre. In the case of Washington, in the late eighties, Washington had a lot of problems, they were in a financial crisis and federal government almost took over the city government’s budgeting process. There’s a study theme of earnings coming from the water utility they thought it was like a goose that lays golden eggs and it supports the city budget. But then when you have politicians in City Hall making decisions over what to do with this money then you go into all sorts of different management problems. When they went into this financial crisis they had a choice between ‘should privatise or should we remain public?’. And the way that they approached this problem which went into a lot of discussions and even hearings in the House of Representatives, they

commissioned consultants that looked at the situation. They defined efficiency as if costs can be reduced by 2.5% to 3.2% each year, over all costs. So that's their quantification of what efficiency means. And they ... of the public water utility 'can you meet these targets, because if not, we'll give it to the private sector?' And they were given time to respond to it, and they said that they can, so the job was given to them, because why give something to the private sector, if the private sector operated then they would lose *such* incentive because of all these different incentives that go into public operations.

In the case of Porto Alegre, because it's an efficient utility, they have 99.5% coverage. In sanitation the average in terms of area is 48% but they reach up to 79% of the city. It's low by the national standard but it's the highest in Brazil - the sanitation coverage. So it's looking at how is the water department, in Porto Alegre able to keep efficiency. Again it goes back to the issue of cost recovery because they make sure that the first thing that they have is the water department is autonomous. So it means that the money that they collect is retained within the department. And it is the department professionals who make the recommendations on what to do with that money. So it cannot be used for other purposes unlike *with respect* to City Hall. So that's more rational decision making on what to do with the revenues. They also have what they call the participatory budgeting mechanism which allows local communities to make sure that whatever taxes, whatever they pay to the budget, into the city's pot, is something that they have a say on. So there is a lot of citizen participation in decision making on the budget. So in a way, what Porto Alegre has done is also to create a public *say* in which you have all these discussions between governments and citizens taking place.

